



INTERNATIONAL ENTERTAINMENT CORPORATION

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

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This announcement, for which the directors (the “Directors”) of International Entertainment Corporation (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Results

The board of directors (the “Board”) of International Entertainment Corporation (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 September 2006, together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

Condensed Consolidated Income Statement

For the three months and six months ended 30 September 2006

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	3	60,181	67,816	111,569	183,719
Cost of sales		(56,243)	(73,119)	(117,235)	(168,358)
Gross profit (loss)		3,938	(5,303)	(5,666)	15,361
Other income	4	3,218	2,228	6,565	4,122
Selling and distribution costs		(2,748)	(6,809)	(6,838)	(13,669)
General and administrative expenses		(9,994)	(14,228)	(20,372)	(26,995)
Finance costs		(943)	(424)	(1,815)	(603)
Loss before taxation	5	(6,529)	(24,536)	(28,126)	(21,784)
Taxation	6	–	–	–	–
Loss for the period		(6,529)	(24,536)	(28,126)	(21,784)
Attributable to:					
Equity holders of the Company		(6,529)	(12,896)	(28,126)	(12,684)
Minority interests		–	(11,640)	–	(9,100)
		(6,529)	(24,536)	(28,126)	(21,784)
Loss per share	8				
Basic		HK(2.77) cents	HK(5.47) cents	HK(11.93) cents	HK(5.38) cents
Diluted		HK(2.77) cents	HK(5.47) cents	HK(11.93) cents	HK(5.38) cents

Condensed Consolidated Balance Sheet

As at 30 September 2006

		30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	1,606	1,952
Goodwill		–	–
Interest in an associate		–	–
Deferred tax assets		–	–
		1,606	1,952
Current assets			
Inventories		898	655
Film costs	10	124,068	198,207
Available-for-sale financial assets		18,400	–
Trade receivables	11	14,599	25,001
Other receivables, deposits and prepayments		31,988	23,295
Amounts due from related companies		440	458
Tax recoverable		15	15
Pledged bank deposits		54,082	59,861
Bank balances and cash		241,668	233,123
		486,158	540,615
Current liabilities			
Trade payables	12	96,168	59,371
Other payables and accrued charges		25,897	46,444
Amounts due to related companies		2,779	2,454
Loans from directors	13	3,044	3,044
Loans from related companies	14	12,582	12,582
Preference dividend payable		673	673
Other borrowings	15	3,374	3,374
Bank borrowings	16	81,606	127,133
		226,123	255,075

		30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
Net current assets		260,035	285,540
Total assets less current liabilities		261,641	287,492
Capital and reserves			
Share capital	17	235,831	235,831
Share premium and reserves		25,810	51,661
Equity attributable to equity holders of the Company		261,641	287,492
Minority interests		-	-
Total equity		261,641	287,492

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	56,087	(10,793)
Net cash used in investing activities	(2,217)	(35,282)
Net cash used in financing activities	(47,342)	(75,021)
Increase (decrease) in cash and cash equivalents	6,528	(121,096)
Cash and cash equivalents at 1 April	233,123	350,858
Effect of foreign exchange rate changes	2,017	2,353
Cash and cash equivalents at 30 September	241,668	232,115
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	241,668	232,115

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

	Attributable to equity holders of the Company								
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2005	235,831	263,832	53,022	-	(2,793)	(145,463)	404,429	77,377	481,806
Effect of changes in accounting policies	-	-	-	-	-	(505)	(505)	-	(505)
At 1 April 2005, as restated	235,831	263,832	53,022	-	(2,793)	(145,968)	403,924	77,377	481,301
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	-	(2,080)	-	(2,080)	(1,733)	(3,813)
Loss for the period	-	-	-	-	-	(12,684)	(12,684)	(9,100)	(21,784)
Total recognised income and expenses for the period	-	-	-	-	(2,080)	(12,684)	(14,764)	(10,833)	(25,597)
At 30 September 2005	235,831	263,832	53,022	-	(4,873)	(158,652)	389,160	66,544	455,704
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	-	2,711	-	2,711	2,354	5,065
Loss for the period	-	-	-	-	-	(104,379)	(104,379)	(68,898)	(173,277)
Total recognised income and expenses for the period	-	-	-	-	2,711	(104,379)	(101,668)	(66,544)	(168,212)
At 31 March 2006	235,831	263,832	53,022	-	(2,162)	(263,031)	287,492	-	287,492
Fair value change in available-for-sale financial assets	-	-	-	4,902	-	-	4,902	-	4,902
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	-	(2,627)	-	(2,627)	-	(2,627)
Net income recognised directly in equity	-	-	-	4,902	(2,627)	-	2,275	-	2,275
Loss for the period	-	-	-	-	-	(28,126)	(28,126)	-	(28,126)
Total recognised income and expenses for the period	-	-	-	4,902	(2,627)	(28,126)	(25,851)	-	(25,851)
At 30 September 2006	235,831	263,832	53,022	4,902	(4,789)	(291,157)	261,641	-	261,641

Notes:

1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rule”) and Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. Principal accounting policies

The unaudited condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the unaudited condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006 except as described below.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (i.e. financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment previously recognised in equity is removed from equity and recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment losses.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of new HKFRSs had no material effect on how the results of current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 8	Scope of HKFRS 2 ²
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

3. Segment information

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely network solutions, project services and entertainment business. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Income statement for the six months ended 30 September 2006

	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Entertainment business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER					
External sales	3,371	3,972	103,430	796	111,569
Inter-segment sales	-	-	-	-	-
Total	3,371	3,972	103,430	796	111,569
Inter-segment sales are charged at prevailing market prices.					
RESULTS					
Segment results	565	1,009	(26,213)	490	(24,149)
Other income					6,565
Unallocated expenses					(8,727)
Finance costs					(1,815)
Loss before taxation					(28,126)
Taxation					-
Loss for the period					(28,126)

Income statement for the six months ended 30 September 2005

	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Entertainment business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Elimination (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER						
External sales	3,314	4,695	174,696	1,014	-	183,719
Inter-segment sales	105	-	-	-	(105)	-
Total	3,419	4,695	174,696	1,014	(105)	183,719

Inter-segment sales are charged at prevailing market prices.

RESULTS

Segment results	1,025	1,180	(18,893)	492	-	(16,196)
Other income						4,122
Unallocated expenses						(9,107)
Finance costs						(603)
Loss before taxation						(21,784)
Taxation						-
Loss for the period						(21,784)

Geographical segments

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC") and the United States of America (the "USA").

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong	7,023	7,387
Elsewhere in the PRC	1,120	1,636
USA	43,249	64,599
Europe	57,583	97,699
Asia other than Hong Kong and the PRC	2,594	12,398
	111,569	183,719

4. Other income

	Three months ended 30 September		Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income on bank deposits	2,673	2,228	5,566	4,104
Other interest income	43	–	43	–
Dividend income from listed securities	300	–	300	–
Sundry income	202	–	656	18
	3,218	2,228	6,565	4,122

5. Loss before taxation

Loss before taxation has been arrived at after charging:

	Three months ended 30 September 2006 (Unaudited) HK\$'000		Six months ended 30 September 2006 (Unaudited) HK\$'000	
		2005 (Unaudited) HK\$'000		2005 (Unaudited) HK\$'000
Allowance for bad and doubtful debts and bad debts written off	437	3,042	1,046	3,100
Amortisation of film costs	32,184	69,577	72,672	163,180
Impairment loss recognised in respect of film costs (included in cost of sales)	–	–	18,235	–
Depreciation of property, plant and equipment	311	675	758	1,331
Rental expenses under operating leases on:				
– premises	1,052	930	2,072	1,848
– equipment	89	116	170	211
Staff costs, including directors' emoluments				
– salaries and allowances	6,319	5,647	12,077	11,470
– retirement benefits schemes contributions	117	129	255	205

6. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months and six months ended 30 September 2006 (for the three months and six months ended 30 September 2005: nil).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

7. Dividend

The Board does not recommend the payment of any dividend for the six months ended 30 September 2006 (for the six months ended 30 September 2005: nil).

8. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September 2006 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$6,529,000 and HK\$28,126,000 (three months and six months ended 30 September 2005: HK\$12,896,000 and HK\$12,684,000) and the weighted average number of shares of 235,831,447 (three months and six months ended 30 September 2005: 235,831,447) in issue during the periods.

The computation of diluted loss per share for the three months and six months ended 30 September 2006 and for the three months and six months ended 30 September 2005 did not assume the exercise of the subsidiary's outstanding share options existed during the six months ended 30 September 2006 and six months ended 30 September 2005 since their exercise would reduce loss per share.

9. Property, plant and equipment

	Leasehold improvements (Unaudited) <i>HK\$'000</i>	Furniture, fixtures and equipment (Unaudited) <i>HK\$'000</i>	Computer hardware (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
COST				
At 1 April 2006	2,458	926	6,794	10,178
Exchange adjustments	4	(152)	–	(148)
Additions	340	–	67	407
Disposals	–	–	(28)	(28)
At 30 September 2006	2,802	774	6,833	10,409
DEPRECIATION AND IMPAIRMENT				
At 1 April 2006	1,995	513	5,718	8,226
Exchange adjustments	–	(158)	–	(158)
Provided for the period	164	141	453	758
Disposals	–	–	(23)	(23)
At 30 September 2006	2,159	496	6,148	8,803
CARRYING VALUES				
At 30 September 2006	643	278	685	1,606
At 31 March 2006	463	413	1,076	1,952

10. Film costs

(Unaudited)
HK\$'000

COST	
At 1 April 2006	572,775
Exchange adjustments	18,200
Additions	14,984
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At 30 September 2006	605,959
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AMORTISATION AND IMPAIRMENT	
At 1 April 2006	374,568
Exchange adjustments	16,416
Provided for the period	72,672
Impairment loss recognised	18,235
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At 30 September 2006	481,891
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CARRYING VALUES	
At 30 September 2006	124,068
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At 31 March 2006	198,207
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11. Trade receivables

The credit terms of the Group range from 0 to 90 days. A longer period is granted to few film distributors with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Aged:		
0 – 30 days	9,449	1,112
31 – 60 days	1,767	172
61 – 90 days	3,155	6,624
Over 90 days	228	17,093
	14,599	25,001

12. Trade payables

The aged analysis of trade payables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Aged:		
0 – 30 days	5,433	2,871
31 – 60 days	53	253
61 – 90 days	223	65
Over 90 days	90,459	56,182
	96,168	59,371

13. Loans from directors

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Mr. Choi Wing Kin ("Mr. Choi")	2,849	2,849
Mr. So Kam Wing ("Mr. So")	195	195
	3,044	3,044

The amounts are unsecured and repayable on demand. Included in the total amount of HK\$3,044,000 is approximately HK\$1,776,000 (as at 31 March 2006: HK\$1,776,000) which bears interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum. The remaining balance is non-interest bearing.

14. Loans from related companies

The Group obtained loan advances of HK\$11,800,000 (as at 31 March 2006: HK\$11,800,000) from Cyber Network Technology Limited ("Cyber Network"). Included in the amount is HK\$1,200,000 (as at 31 March 2006: HK\$1,200,000), which bears interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited, is subject to a corporate guarantee issued by the Company and repayable on demand. Besides, approximately HK\$800,000 (as at 31 March 2006: HK\$800,000), which bears interest at HIBOR plus 2% per annum, is unsecured and repayable on demand. The remaining balance of HK\$9,800,000 (as at 31 March 2006: HK\$9,800,000) which bears interest at HIBOR plus 2% per annum, is subject to a corporate guarantee issued by the Company and repayable on demand.

The Group also obtained loan advances from Wellington Equities Inc. ("Wellington") amounting to approximately HK\$782,000 (as at 31 March 2006: HK\$782,000). Included in this amount is HK\$456,000 (as at 31 March 2006: HK\$456,000), which bears interest at HIBOR plus 2% per annum, is unsecured and repayable on demand. The remaining balance of HK\$326,000 (as at 31 March 2006: HK\$326,000) is interest free and repayable on demand.

15. Other borrowings

The amounts are unsecured and repayable on demand. Included in this amount is approximately HK\$1,968,000 (as at 31 March 2006: HK\$1,968,000) which bears interest at HIBOR plus 2% per annum. The remaining balance is non-interest bearing and is repayable on demand.

16. Bank borrowings

The amounts are secured, interest bearing and repayable within one year.

17. Share capital

	Par value of shares	Number of shares	Value
	<i>HK\$</i>		(Unaudited) <i>HK\$'000</i>
Authorised:			
Ordinary shares At 1 April 2006 and at 30 September 2006	1.00 each	500,000,000	500,000
Issued and fully paid:			
Ordinary shares At 1 April 2006 and at 30 September 2006	1.00 each	235,831,447	235,831

18. Operating lease commitments

At 30 September 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2006 (Unaudited) <i>HK\$'000</i>	31 March 2006 (Audited) <i>HK\$'000</i>
Within one year	4,170	3,013
In the second to fifth year inclusive	3,178	2,307
	7,348	5,320

19. Contingent liabilities

There were no material contingent liabilities under the Group as at 31 March 2006 and 30 September 2006.

20. Related party transactions

During the period, the Group entered into the following material transactions with related parties:

	Six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Rentals and office administrative expenses (<i>note a</i>)	325	269
Rental expenses (<i>note b</i>)	681	533
Finance costs to related companies (<i>note c</i>)	249	251
Finance costs to directors (<i>note d</i>)	56	56
Project service income (<i>note e</i>)	–	2,639

Notes:

- (a) A company, in which Mr. Lo Lin Shing, Simon (“Mr. Lo”), a director of the Company has beneficial interests, provided office space for the Group and share of office administrative expenses.
- (b) A company, in which Dr. Cheng Kar Shun (“Dr. Cheng”), a director of the Company has beneficial interests, lease office premises to the Group.
- (c) Companies, in which Mr. Lo, a director of the Company has beneficial interests, provided loans to the Group. Details of the interest rate and terms of the loans are disclosed in note 14.
- (d) The amounts included finance costs paid in respect of loans from Mr. Choi and Mr. So, directors of the Company. Details of interest rate and terms of the loans are disclosed in note 13.
- (e) Project service income represented service provided to a company, in which Dr. Cheng and Mr. Lo are directors of the Company and Dr. Cheng has beneficial interests.

Management Discussion and Analysis

Financial Review

The Group's turnover for the six months ended 30 September 2006 was approximately HK\$111.6 million, representing a decrease of approximately 39.3%, as compared with approximately HK\$183.7 million for the previous corresponding period in 2005. The decrease in turnover was mainly due to the decrease in number of films produced during the period. The Group report a gross loss of approximately HK\$5.7 million for the period under review, as compared with gross profit of approximately HK\$15.4 million in the last corresponding period. The gross loss for the period was mainly due to the decrease in revenue from film production and write-downs on some of the films costs during the period.

Selling and distribution costs, and general and administrative expenses decreased by approximately 33.1% to approximately HK\$27.2 million for the six months ended 30 September 2006 from approximately HK\$40.7 million in the last corresponding period. The decrease was mainly due to the decrease in marketing expenses for film promotion and distribution expenses for film distribution.

The Group recorded a loss before taxation for the six months ended 30 September 2006, amounted to approximately HK\$28.1 million, representing an increase of approximately 29.1%, as compared with approximately HK\$21.8 million in the last corresponding period. The increase in loss before taxation was mainly due to the decrease in revenue from film production and write-downs on some of the films costs during the period.

Business Review

The principal activities of the Group are provision of network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

1. Entertainment business

The revenue derived from the entertainment business for the six months ended 30 September 2006 was approximately HK\$103.4 million, representing a decrease of approximately 40.8% as compared with approximately HK\$174.7 million for the previous corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *Man About Town*, *Running Scared* and *Lovewrecked*. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn. *Running Scared* is written and directed by Wayne Kramer and starring Paul Walker and *Lovewrecked* stars Amanda Bynes and Chris Carmack. The decrease in revenue resulted from a decrease in sales attributable to the Group's film and decrease in number of films produced during the period.

2. *Wireless application and network solutions*

Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks (“WLAN”) whereas network solutions include solutions for computer networks, data communication networks, WLAN networks and synchronization networks.

During the six months ended 30 September 2006, the revenue derived from the network solutions was approximately HK\$3.4 million, compared to approximately HK\$3.4 million in the last corresponding period. The revenue from network solutions remained stable during the period.

3. *Project services*

For the six months ended 30 September 2006, the Group completed certain projects, revenue derived from the provision of project services was approximately HK\$4.0 million, compared to approximately HK\$4.7 million in the corresponding period. The decrease in revenue was mainly due to the keen competition in the market.

Future Outlook

As a result of continuing improvement of the economic climate and the fast changing of technology, the demand for network solution increases. Therefore, the Group is going to expand the sales force to increase the solution sales especially on the WLAN solution and Network Access Management solution. Besides, the Group is able to provide internal wireless and wire line network access security solution under the existing product range with existing vendor. The Group is continuously looking for potential vendors and partner to achieve a total solution which is marketable and meets the demands of customers.

Project services are still in keen competition. The project service team will offer potential customers service packages, including project implementation and management service as well as design and supply of the indoor wireless network.

The Group will commence pre-production of several film projects later in this financial year. In addition to the production of films, the Group engages in the acquisition of films. The acquired films will be distributed by the Group. Same as previous years, the Group attends major film festivals, including the Cannes Film Festival and Berlin Film Festival, and distributes the films worldwide, to most territories around the world.

The Group has taken a further step into the entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau on 23 November 2004. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006 and 11 August 2006. As at the date of this announcement, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing. The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

Liquidity, financial resources and capital structure

As at 30 September 2006, the Group's net current assets amounted to approximately HK\$260.0 million (as at 31 March 2006: approximately HK\$285.5 million). Current assets amounted to approximately HK\$486.1 million (as at 31 March 2006: approximately HK\$540.6 million), of which approximately HK\$295.8 million (as at 31 March 2006: approximately HK\$293.0 million) was cash, bank deposits and pledged deposits, approximately HK\$14.6 million (as at 31 March 2006: approximately HK\$25.0 million) was trade receivables, approximately HK\$18.4 million (as at 31 March 2006: nil) was available-for-sale financial assets, approximately HK\$32.0 million (as at 31 March 2006: approximately HK\$23.3 million) was other receivable, deposits and prepayments and approximately HK\$124.1 million (as at 31 March 2006: approximately HK\$198.2 million) was film costs.

The Group had current liabilities amounted to approximately HK\$226.1 million (as at 31 March 2006: approximately HK\$255.1 million), of which approximately HK\$96.2 million (as at 31 March 2006: approximately HK\$59.4 million) was trade payables, approximately HK\$25.9 million (as at 31 March 2006: approximately HK\$46.4 million) was other payables and accrued charges, and approximately HK\$85.0 million (as at 31 March 2006: approximately HK\$130.5 million) was bank and other borrowings, approximately HK\$15.6 million (as at 31 March 2006: approximately HK\$15.6 million) was loans from Directors and related companies.

As at 30 September 2006, the Group had bank borrowings of the Group amounted to approximately HK\$81.6 million (as at 31 March 2006: approximately HK\$127.1 million), which would be due within one year. The bank borrowings were secured and bore interest at the announced base rate of interest of Bank of America plus 0.75% to 1.25% per annum. All the bank borrowings were denominated in United States dollars.

The Group had loans from certain Directors of approximately HK\$3.0 million (as at 31 March 2006: approximately HK\$3.0 million), of which approximately HK\$1.8 million (as at 31 March 2006: approximately HK\$1.8 million) was unsecured, bore interest at the HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK\$12.6 million (as at 31 March 2006: approximately HK\$12.6 million), of which approximately HK\$11.1 million (as at 31 March 2006: approximately HK\$11.1 million) was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on demand; approximately HK\$1.2 million (as at 31 March 2006: approximately HK\$1.2 million) was unsecured, bore interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand. The Company provided guarantees to a related company in respect of loans utilised by subsidiaries of the Group amounting to HK\$11.0 million (as at 31 March 2006: HK\$11.0 million).

In addition, the Group had other borrowings of approximately HK\$3.4 million (as at 31 March 2006: approximately HK\$3.4 million), of which approximately HK\$2.0 million (as at 31 March 2006: approximately HK\$2.0 million) was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 20.6% as at 30 September 2006, compared to approximately 26.9% as at 31 March 2006.

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

Charges on Group assets

As at 30 September 2006, the Group's bank deposits of approximately HK\$54.1 million (as at 31 March 2006: approximately HK\$59.9 million), trade receivables, other receivables, deposits and prepayments of approximately HK\$15.8 million (as at 31 March 2006: approximately HK\$32.2 million), and film assets of approximately HK\$54.0 million (as at 31 March 2006: approximately HK\$76.3 million) have been pledged to banks to secure banking facilities granted to the Group.

Material acquisitions and disposals and significant investments

On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and Chow Tai Fook Enterprises Limited ("CTF") entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entire issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due as at the date of completion of the acquisition agreement from members of Fortune Gate Overseas Limited and its subsidiaries to CTF and its subsidiaries and, in addition to making cash payment of HK\$450 million (subject to adjustments), to issue a HK\$400,000,000 convertible note due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK\$2 per share (subject to adjustments) (the "Convertible Note") as consideration to satisfy part of the purchase consideration of HK\$850 million (the "Purchase Price"). As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau (the "Purchase Option") on 17 March 2005 and the Purchase Price will be increased by HK\$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006 and 11 August 2006. As at the date of this announcement, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing.

Save as disclosed above, there were no other material acquisitions or disposals of subsidiaries and affiliated companies, which would have been required to be disclosed under the GEM Listing Rules, for the six months ended 30 September 2006.

Future plans for material investments or capital assets

The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, and strive for better return to the shareholders.

Exposure to fluctuations in exchange rates and any related hedges

The Group's assets and liabilities were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has no significant exposure to foreign exchange fluctuations.

Contingent liabilities

As at 30 September 2006, the Company has provided corporate guarantees of HK\$11.0 million (as at 31 March 2006: HK\$11.0 million) to secure loans and other borrowings granted to its subsidiaries.

Employees and remuneration policies

The total number of employees of the Group was 46 as at 30 September 2006 (as at 30 September 2005: 51). The staff costs for the six months ended 30 September 2006 was approximately HK\$12.3 million (for the six months ended 30 September 2005: approximately HK\$11.7 million). The remuneration of employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

Save as disclosed below, as at 30 September 2006, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong) which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange.

Long positions in the ordinary shares of the Company

Name of director	Number of ordinary shares of HK\$1.00 each in the share capital of the Company			Approximate percentage of the issued share capital of the Company
	Personal interest	Corporate interest	Total	
Mr. Choi Wing Kin	1,329,600	–	1,329,600	0.56%
Mr. So Kam Wing	49,200	–	49,200	0.02%
Mr. Lo Lin Shing, Simon	–	364,800 (Note)	364,800	0.15%

Note:

These shares are held by Wellington Equities Inc., which is wholly owned by Mr. Lo Lin Shing, Simon.

Interests and Short Positions of Shareholders in Shares and Underlying Shares of the Company

Save as disclosed below, as at 30 September 2006, so far as is known to the Directors or chief executives of the Company, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

Long positions in the ordinary shares of the Company

Name of shareholder	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	-	-	120,000,079	50.88%
Cross-Growth Co., Ltd.	Beneficial owner	-	-	200,000,000 (Note 3)	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	-	707,494,341 (Note 4)	-	1,027,494,420	435.69%
	Interest of a controlled corporation	120,000,079 (Note 1)	-	200,000,000 (Note 3)		
Centennial Success Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 5)	707,494,341 (Notes 4, 5)	200,000,000 (Notes 3, 5)	1,027,494,420	435.69%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 6)	707,494,341 (Notes 4, 6)	200,000,000 (Notes 3, 6)	1,027,494,420	435.69%
Young China Investments Limited	Beneficial owner	19,000,000	-	-	19,000,000	8.06%
Mr. Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	-	-	19,000,000	8.06%

Notes:

- (1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.
- (2) Young China Investments Ltd. is wholly owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company held by Young China Investments Ltd. under the SFO.
- (3) These underlying shares represent the new shares to be issued upon full conversion at the initial conversion price of HK\$2 per share of the convertible note to be issued by the Company to Cross-Growth Co., Ltd. (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth Co., Ltd., the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004.

Cross-Growth Co., Ltd. is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 200,000,000 underlying shares held by Cross-Growth Co., Ltd. under the SFO.

- (4) These unissued shares represent the rights shares underwritten by CTF in respect of a possible rights issue of the Company, details of which are set out in the announcement of the Company dated 23 November 2004.
- (5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under the SFO.
- (6) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under the SFO.

Share Option Schemes

(a) Pre-IPO share option scheme

A pre-IPO share option scheme (“Pre-IPO Scheme”) was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

No options can be granted under the Pre-IPO Scheme upon the listing of the Company on GEM. There were no share options outstanding under the Pre-IPO Scheme as at 30 September 2006.

(b) Post-IPO share option scheme

In addition, a post-IPO share option scheme (the “Post-IPO Scheme”) was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

No options have been granted, exercised or cancelled during the six months ended 30 September 2006 and there were no share options outstanding under the Post-IPO Scheme as at 30 September 2006. The Post-IPO Scheme was terminated and replaced by a new share option scheme (the “New Scheme”) pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004.

(c) New share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted. The summary of the principal terms of the New Scheme is set out in Appendix II of the circular of the Company dated 27 July 2004.

No options have been granted, exercised or cancelled during the six months ended 30 September 2006 and there were no share options outstanding under the New Scheme as at 30 September 2006.

(d) Share option scheme of M8 Entertainment Inc.

During 1994, the board of directors of M8 Entertainment Inc. ("M8") formally established the Amended and Restated 1994 Stock Option Plan ("the Plan"), which provides for the granting of stock options to acquire Class B M8 Shares to employees, officers, directors and independent service providers to M8 or any of its subsidiaries.

Details of the share options outstanding as at 30 September 2006 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share	At 1 April 2006 and 30 September 2006
			<i>CAD</i>	
Employee	25 May 2000	26 May 2000 – 25 May 2010	0.120	100,000
Employee	29 August 2000	30 August 2002 – 29 August 2010	0.100	137,500
Employee	29 August 2000	30 August 2003 – 29 August 2010	0.100	306,250
Employee	29 August 2000	30 August 2004 – 29 August 2010	0.100	306,250
Employee	24 May 2001	25 May 2001 – 24 May 2011	0.035	100,000
Employee	15 February 2002	16 February 2003 – 15 February 2012	0.075	830,000
Employee	13 May 2002	14 May 2003 – 13 May 2012	0.170	750,000
Employee	13 May 2002	14 May 2004 – 13 May 2012	0.170	1,150,000
Employee	13 May 2002	14 May 2005 – 13 May 2012	0.170	1,150,000
Employee	13 May 2002	14 May 2006 – 13 May 2012	0.170	1,150,000
Employee	28 August 2002	29 August 2004 – 28 August 2012	0.160	1,200,000
Employee	1 May 2003	2 May 2003 – 1 May 2013	0.075	5,970,000
Total				<u>13,150,000</u>

No option was exercised, cancelled or granted during the six months ended 30 September 2006.

Competing Business

During the six months ended 30 September 2006, none of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

Audit Committee

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members, comprising two independent non-executive directors and a non-executive director, Mr. Cheung Hon Kit, Mr. Wong Chi Keung and Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the unaudited interim results for the six months ended 30 September 2006.

Compliance with Code on Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2006, except for the following deviations:

Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The chairman of the Board had not attended the annual general meeting of the Company held on 25 August 2006 as he was having his business commitment at the time of such meeting. One of the executive directors were elected as the chairman of the annual general meeting and responded to the questions of the shareholders. The management considers that the Board endeavor to maintain an on-going dialogue with shareholders.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the rules 5.48 to 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 September 2006.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Dr. Cheng Kar Shun
Chairman

Hong Kong, 14 November 2006

As at the date of this announcement, the Board comprises the following members:

Executive Directors:

Cheng Kar Shun (*Chairman*)

Lo Lin Shing, Simon

To Hin Tsun, Gerald

Choi Wing Kin

So Kam Wing

Non-executive Director:

Wu Wing Kin

Independent non-executive Directors:

Cheung Hon Kit

Kwee Chong Kok, Michael

Wong Chi Keung

This announcement will remain at www.hkgem.com on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the website of the Company at www.cyberonair.com.